MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BFN3034 – BEHAVIOURAL FINANCE

(SECTION B01)

30 MAY 2017
9.00 A.M. – 11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 2 pages.
2. Answer **ALL** questions. The marks for each question are given in the question paper.
3. Please write your answers for all the questions in the answer booklet.

Answer ALL questions.

Question 1

(a) Identify one behavioural bias or trait that is most exhibited from statement (i) to (iii) below.

(i) Henny Ma has just received new information regarding her investment in Pear Berhad. The new information appears to conflict with her earlier forecase of what the stock price should be at this point. Nonetheless, she is unwilling to incorporate the new information into her forecast and to revise it accordingly. What behavioural bias or trait is Henny displaying?

(5 marks)

(ii) Alice Lai is a savvy investor who has investments scattered across many different accounts, from bank savings and before-and after tax retirement accounts to taxable nonretirement accounts. She also has several different investing goals ranging from important short-term goals to longer term "wish list" goals. Even though she has many investments along with different goals, she is smart enough to take into consideration the correlation between her assets. She allocates the assets according to her risk-return profile across different asset classes, viewing the investments as comprising a single portfolio with a single measure of risk. What behavioural trait would represent the way Alice approaches investing.

(5 marks)

(iii) Individuals have been asked to state their minimum sale price for an asset (say RM500) and their maximum purchase price (say RM450). The studies show that they will sell it at a price higher than they would pay.

(5 marks)

(b) Discuss the impacts and mitigations of the overconfidence and regret aversion biases of an individual. **(10 marks)**

(c) Distinguish between cognitive errors and emotional biases. **(10 marks)**

(Total: 35 marks)

Question 2

(a) Explain the two conditions in Shleifer model that need to be met in order for the efficient market hypothesis to be invalid. **(10 marks)**

Continued...

(b) Describe main concepts of the prospect theory and show them in the value function. **(20 marks)**

(Total: 30 marks)

Question 3

(a) Compare three risk behaviours of investors by using utility function of wealth. You are required to show them in three graph forms. Then, discuss the risk behaviour of people in complex risk functions from behavioural finance perspectives. **(23 marks)**

(b) Explain the main concept of heuristics. Discuss any two of types or groups of heuristics. **(12 marks)**

(Total: 35 marks)

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